

AR05

*ANNUAL
REPORT
1971*

Advocate Mines Limited

Annual Meeting of Shareholders

June 2, 1972, 11:00 a.m.

in the Bronze Room

Lord Simcoe Hotel, Toronto, Ontario

ADVOCATE MINES LIMITED

(Incorporated under the laws of Ontario)

Directors

E. R. E. Carter
J. M. Emsens
Max Graf
J. R. M. Hutcheson
Gilbert Kerlin
Karl V. Lindell
W. L. VanDerbeek

Officers

E. R. E. Carter, Chairman of the Board and President
A. R. Dennis, Treasurer
A. D. Stirling, Secretary

Registrar and Transfer Agents

Guaranty Trust Company of Canada
Toronto and Fredericton

Auditors

Loftus A. Allen & Co., Toronto, Ontario

Head Office

7 King Street East, Toronto, Ontario

Mine Office

Baie Verte, Newfoundland

Directors' Report

Net Income

Net income was \$1,824,000 or 17¢ per common share after providing for preference dividends earned in 1971 of \$806,000. This compares with net income of \$1,439,000 and 11¢ per common share in 1970.

Cash Flow

Cash from operations was \$3,238,000. From these monies there was applied \$262,000 for fixed asset additions, \$1,611,000 for preference dividends, \$300,000 for common dividends and \$895,000 for the redemption of preference shares.

Dividends

The 1970 preference dividend was paid on January 20, 1971 and the 1971 preference dividends were paid in half-yearly instalments on September 20 and December 31, 1971. The Company's first common dividend of 5¢ per share was paid on December 31, 1971 to shareholders of record December 13, 1971.

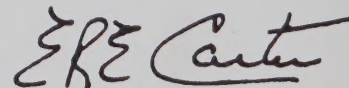
Operations

Production was 70,614 tons of A-25 fibre and 5,107 tons of A-35 fibre (70,835 tons of A-25 and 2,096 tons of A-35 in 1970) valued at \$13,946,000 (\$13,622,000 in 1970). Shipments were 69,228 tons which exceeded those of 1970 by 10%. As fibre inventories are valued at net realizable value, which in effect is 'net selling price', profits are earned as fibre is produced.

Outlook

The current Western World surplus of asbestos fibre does not presently make the outlook for 1972 promising. This situation could change with improved economic activity. Your Company will make every effort to ensure a high standard of operations.

On behalf of the Board of Directors



Chairman of the Board and President

March 31, 1972.

ADVOCATE MINES LIMITED

Consolidated Statement of Income

	Year Ended	December 31 1971	December 31 1970
REVENUE			
Value of fibre produced		\$13,946,000	\$13,622,000
EXPENSES			
Operating costs		10,662,000	10,678,000
Interest		89,000	133,000
Depreciation (Note 5)		1,200,000	1,200,000
Amortization of mine development costs (Note 5)		150,000	150,000
Mining taxes		21,000	22,000
		<u>12,122,000</u>	<u>12,183,000</u>
NET INCOME (Note 3)		<u>\$ 1,824,000</u>	<u>\$ 1,439,000</u>
Earnings per common share after providing for preference dividends earned of \$805,500 per annum		<u>17¢</u>	<u>11¢</u>

Consolidated Statement of Retained Earnings

	Year Ended	December 31 1971	December 31 1970
BALANCE, BEGINNING OF YEAR		\$ 5,882,000	\$ 5,248,000
Net income		1,824,000	1,439,000
		<u>7,706,000</u>	<u>6,687,000</u>
DIVIDENDS PAID			
Preference		1,611,000	805,000
Common		300,000	—
		<u>1,911,000</u>	<u>805,000</u>
BALANCE, END OF YEAR		<u>\$ 5,795,000</u>	<u>\$ 5,882,000</u>

(See accompanying notes to financial statements)

ADVOCATE MINES LIMITED

Consolidated Balance Sheet

ASSETS

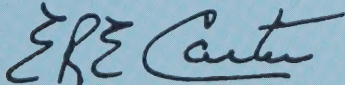
	December 31 1971	December 31 1970
CURRENT ASSETS		
Cash	\$ 76,000	\$ 99,000
Accounts receivable	2,534,000	2,270,000
Fibre inventory, at net realizable value	3,543,000	2,442,000
Stores and supplies, at cost	1,617,000	1,698,000
Prepaid expenses	33,000	22,000
	<u>7,803,000</u>	<u>6,531,000</u>
MINING PROPERTIES AND RIGHTS, at cost (Note 2) ..	75,000	75,000
FIXED ASSETS		
Property, plant and equipment, at cost	24,860,000	24,841,000
Less: Accumulated depreciation	7,093,000	6,072,000
	<u>17,767,000</u>	<u>18,769,000</u>
OTHER ASSETS		
Advances to school boards	859,000	859,000
Mine development costs, less amounts written off	3,003,000	3,153,000
	<u>\$29,507,000</u>	<u>\$29,387,000</u>

(See accompanying notes to financial statements)

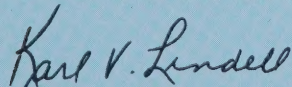
LIABILITIES

	December 31 1971	December 31 1970
CURRENT LIABILITIES		
Bank loan, secured	\$ 2,480,000	\$ 1,530,000
Accounts payable	1,968,000	1,804,000
Miscellaneous taxes payable	77,000	89,000
	<u>4,525,000</u>	<u>3,423,000</u>
 SHAREHOLDERS' EQUITY (Note 4)		
Capital		
Authorized, Issued and Fully Paid		
170,050 4½% Cumulative redeemable preference shares of \$100 par value (179,000 in 1970)	17,005,000	17,900,000
6,000,000 Common shares of \$1 par value	6,000,000	6,000,000
	<u>23,005,000</u>	<u>23,900,000</u>
Less: Discount on common shares	3,818,000	3,818,000
	<u>19,187,000</u>	<u>20,082,000</u>
Retained earnings	5,795,000	5,882,000
	<u>24,982,000</u>	<u>25,964,000</u>
	<u>\$29,507,000</u>	<u>\$29,387,000</u>

Approved by the Board:



E. R. E. CARTER, Director.



KARL V. LINDELL, Director.

ADVOCATE MINES LIMITED

Consolidated Statement of Source and Application of Funds

	Year Ended	December 31 1971	December 31 1970
SOURCE OF FUNDS			
Net income		\$ 1,824,000	\$ 1,439,000
Depreciation		1,200,000	1,200,000
Amortization of mine development costs		150,000	150,000
Depreciated cost of fixed assets sold		64,000	102,000
		<u>3,238,000</u>	<u>2,891,000</u>
APPLICATION OF FUNDS			
Fixed assets		262,000	1,081,000
Preference dividend		1,611,000	805,000
Common dividend		300,000	—
Redemption of preference shares		895,000	—
		<u>3,068,000</u>	<u>1,886,000</u>
INCREASE IN WORKING CAPITAL		170,000	1,005,000
WORKING CAPITAL, BEGINNING OF YEAR		3,108,000	2,103,000
WORKING CAPITAL, END OF YEAR		<u>\$ 3,278,000</u>	<u>\$ 3,108,000</u>

(See accompanying notes to financial statements)

Notes to Consolidated Financial Statements

1. The consolidated financial statements combine the accounts of the Company with those of its wholly owned subsidiary, Advocate Concessions Exploration Company Limited.
2. The Province of Newfoundland granted the Company the exclusive prospecting and exploration rights in the Rattling Brook-White Bay Area until December 31, 1973. Under this agreement and subject to certain conditions, development licenses for a period of five years may be obtained for areas not exceeding 40 square miles in the aggregate. A mining lease may then be obtained for any or all of the area covered by a development license.

In 1964, 1968 and 1969 Advocate was granted, near the Town of Baie Verte, two 50-year mining leases covering 623 acres and a development license expiring in 1973 covering 416 acres.

Advocate assigned to M. J. Boylen its rights under the agreement with the Province of Newfoundland except:

- (a) all rights in a development area of approximately 5 square miles which includes the above-noted two mining leases and one development license;
- (b) any asbestos minerals discovered outside the development area referred to in (a), subject to a 20% non-assessable undivided interest to M. J. Boylen in such asbestos minerals;
- (c) a 20% non-assessable undivided interest to Advocate in any minerals other than asbestos discovered outside the development area referred to in (a).

In consideration of such assignment, M. J. Boylen expended \$188,000 which exceeded the minimum of \$150,000 required by the Province of Newfoundland for prospecting and exploration in the area.

3. The Department of National Revenue is currently reviewing the taxation years to 1969 and have indicated they will treat development expenses of \$4.3 million incurred in the tax exempt period 1963-66 as current operating expenses of those years. In the opinion of counsel, the Company is entitled to claim these expenses in the years subsequent to 1966. Should a tax assessment be issued, the cash outlay will be nominal as the Company will then claim additional depreciation for tax purposes to offset the disallowance of the development expenses. Accordingly, no provision for current income taxes is required. Had income taxes been payable, the amounts based on the income statement would have been \$645,000 in 1971 and \$475,000 in 1970.

However, should the assessment be issued and the Department upheld, depreciation and amortization claimed for tax purposes since 1963 would then exceed the amounts provided on the financial statements and it would then be necessary to make an accounting entry for deferred income taxes of \$750,000 payable in future years when the pool of allowances for tax purposes approaches zero. No such accounting provision for deferred income taxes has been made on the financial statements pending a final outcome of negotiations.

4. Pursuant to the Financing Agreement dated September 29, 1958, the Company has agreed to redeem the preference shares from 75% of the annual cash flow after provision for working capital, additions to plant and equipment

and payment of preference dividends. The balance is available for the declaration and payment of dividends on common shares. As of December 31, 1971, preference dividends were on a current basis. On that date, the Company redeemed 8,950 preference shares at par (\$895,000) and paid a common dividend of 5¢ per share (\$300,000).

5. Substantially all the fixed assets were acquired in 1963 when the mine commenced production. At that time, based on the earlier of the mine life or the asset life for specific assets, an annual depreciation of \$1,200,000 was determined. Depreciation on all assets is calculated annually and compared with the annual accounting charge of \$1,200,000. No adjustment has been made as the difference is not significant.

Amortization of \$200,000 per annum was established in 1963 based on the then ore reserves of approximately 40 million tons mined at the rate of approximately 2 million tons per annum. Amortization of \$145,000 was established for 1966 and 1967 and \$150,000 in 1968 and subsequent years based on increased ore reserves at that time.

6. The aggregate remuneration paid to the directors and the five highest paid employees of the Company for 1971 and 1970 was \$98,652 and \$90,264 respectively.

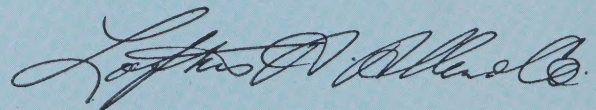
Auditors' Report to the Shareholders

LOFTUS A. ALLEN & COMPANY

We have examined the consolidated balance sheet of Advocate Mines Limited and its wholly owned subsidiary as at December 31, 1971 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
February 9, 1972.



CHARTERED ACCOUNTANTS

Report of the Manager

We, as Manager of your operations at Baie Verte, Newfoundland, report hereunder for the year 1971.

Production

The mill operated 335 days, resulting in production of 70,614 tons of A-25 fibre and 5,107 tons of A-35 fibre. 2,429,500 tons of ore were delivered to the crushing and drying plant, with a recovery of 3.12%.

During the year, 2,573,200 tons of ore, 6,589,000 tons of waste and overburden, and 242,000 tons of road rock were mined. This provided a total of 9,404,200 tons, with a waste to ore ratio of 2.56:1, against 3.85:1 in 1970. During 1971 eleven 50 ton haulage trucks were obtained on a 36 month lease; seven of these units were leased in mid-year and a further four at the year-end as replacements in the existing fleet. A new dozer was leased on the same basis, replacing one of the nine-year old units.

Summary of Operating Data

	1971	1970
Days operated	335	340
Tons A-25 Fibre Produced	70,614	70,835
Tons A-35 Fibre Produced	5,107	2,096
Concentrated Ore Milled	1,299,900	1,200,300
Ore to Crusher	2,429,500	2,245,400
Ore to Stockpile	200,900	102,400
Ore from Stockpile	57,200	26,900
Waste Mined	6,831,000	9,247,000
Waste to Ore Ratio	2.56:1	3.85:1
Recovery from Ore Mined	3.12%	3.22%

Ore Reserves

At December 31, 1971 reserves amounted to 57,332,000 tons. Some development drilling (2,150 ft. in the North Zone and 1,000 ft. in the West Zone) was done in 1971 and additional drilling is planned for 1972.

Facilities

The Bottle Neck Removal Program in the Crushing and Drying building was completed in late April resulting in a considerable increase in crushing and drying capacity. Continued emphasis was placed on environmental control in the milling operation with excellent results. Additions to plant and equipment in 1971 amounted to \$262,000.

Shipping

The last boat of the previous shipping season was cleared on March 12, and the first boat of the present season arrived on June 7. Fibre inventory reached a record high of 31,000 tons, late in the year, due to a shipping delay from October 21 to December 2. 65,221 tons of A-25 fibre and 4,007 tons of A-35 fibre were shipped during 1971.

Personnel

At the year end there were 498 employees, of which 61 were staff and 437 hourly. The total number of hourly employees was reduced from 471 at the end of 1970 as a result of a crew reduction in late April. Most of the men laid off during the crew reduction have since been rehired to fill normal vacancies.

The Provincial Government Apprenticeship Program continues to produce satisfactory results with five apprentices completing their course during the year. Two new candidates were enrolled leaving a total enrollment of twenty-one at the year end.

Union relations were stable during the year with regular and mutually satisfactory communications being maintained. The Union Contract expired on November 30, 1971. Contract negotiations started on November 17 with union demands emphasizing Union Security and Benefits. Negotiations were still in progress at year end.

General

During the year there were no lost time accidents; this plant being one of two of the twelve reporting mines and quarries to record this achievement in the Province.

1,848,004 continuous safe man-hours were worked to the year end, with 1,105,686 hours being worked in 1971.

During 1971 a computer mining program was successfully developed for the Mine. The benefits derived from the program are a reliable mining sequence for both short and long term planning and elimination of undue fluctuations in total annual tons moved.

Construction of the District Vocational School in the new Town site started during the summer with completion scheduled for 1972. Other aspects of development planned for the new Town site in 1971 were deferred until 1972, due to delays in the government financing of the water and sewerage installation.

An addition to the High School was approved for the old Town site and was under construction at the year end.

Paving of the 45 mile access road to Baie Verte was completed during the year.

Good relationships were maintained between the Company and the Government during the year.

Canadian Johns-Manville Company, Limited

A handwritten signature in black ink, appearing to read "J.R. M. Hutcheson", with a long horizontal flourish extending to the right.

J. R. M. HUTCHESON
President

January 28, 1972

Five Year Financial Summary

	1971	1970	1969	1968	1967
FOR THE YEAR (in thousands)					
Value of fibre produced	\$ 13,946	\$ 13,622	\$ 10,345	\$ 10,947	\$ 10,941
Operating costs	10,683	10,700	7,463	8,265	7,637
Amortization and depreciation	1,350	1,350	1,125	1,350	1,345
Interest	89	133	172	104	170
	<u>12,122</u>	<u>12,183</u>	<u>8,760</u>	<u>9,719</u>	<u>9,152</u>
Net income	1,824	1,439	1,585	1,228	1,789
Provision for cumulative preference dividend	806	805	805	806	806
Net income to common shareholders	<u>\$ 1,018</u>	<u>\$ 634</u>	<u>\$ 780</u>	<u>\$ 422</u>	<u>\$ 983</u>
Per share	17¢	11¢	13¢	7¢	16¢
Funds generated	3,238	2,891	2,805	2,651	3,270
Per share	54¢	48¢	47¢	44¢	55¢
Funds applied					
Preference dividend	\$ 1,611	\$ 805	\$ 805	\$ 2,417	\$ 1,143
Common dividend	300	—	—	—	—
Redemption of preferred shares	895	—	—	—	—
Fixed assets	262	1,081	625	484	909
Mine development	—	—	—	—	165
Advances to school boards	—	—	—	—	163
AT THE YEAR END (in thousands)					
Working capital	\$ 3,278	\$ 3,108	\$ 2,103	\$ 728	\$ 979
Fixed assets	17,767	18,769	18,990	19,460	20,248
Preproduction and mine development	3,003	3,153	3,303	3,428	3,578
Other assets	934	934	934	934	934
Total shareholders' equity	24,982	25,964	25,330	24,550	25,739
Preference shares, par value	17,005	17,900	17,900	17,900	17,900
Common shares, book value	7,977	8,064	7,430	6,650	7,839
Less arrears, cumulative preference dividends	—	805	805	806	2,417
Common shares, net value	<u>\$ 7,977</u>	<u>\$ 7,259</u>	<u>\$ 6,625</u>	<u>\$ 5,844</u>	<u>\$ 5,422</u>
Per share	\$ 1.33	\$ 1.21	\$ 1.10	97¢	90¢
PRODUCTION					
Fibre produced (tons) A-25	70,614	70,835	55,435	62,407	63,664
A-35	5,107	2,096			
Material mined (thousands of tons)					
Ore	2,573	2,321	1,785	2,041	1,904
Waste and overburden	6,831	9,247	7,090	8,682	8,211
	<u>9,404</u>	<u>11,568</u>	<u>8,875</u>	<u>10,723</u>	<u>10,115</u>
Waste to ore ratio	2.56:1	3.85:1	3.96:1	4.15:1	4.10:1
Recovery from ore crushed	3.12%	3.22%	3.23%	3.27%	3.36%
Ore reserves (thousands of tons)	57,332	59,319	61,564	63,345	67,000

